

**DEPARTMENT OF MENTAL HEALTH,  
RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
REPORT ON CONTRACT COMPLIANCE  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001**

**DEPARTMENT OF ADMINISTRATION  
BUREAU OF AUDITS  
ONE CAPITOL HILL  
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
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DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
REPORT ON CONTRACT COMPLIANCE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

**EXECUTIVE SUMMARY**

Management successfully implemented our recommendation included in our examination of the fiscal years 2000 and 1999 contracts.

Based on our contract compliance engagement for the fiscal years ended June 30, 2002 and 2001 we determined the following:

1. Revenues were co-mingled which violated contract provisions.
2. Management letters were not submitted, as required, by MHRH Departmental regulations.
3. The Provider had excess revenues of \$586,623 and \$624,476 for the fiscal years ended June 30, 2002 and 2001, respectively. These amounts do not reflect adjustments made by MHRH during the period under review. The final use or disposition of these funds rests solely with MHRH.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
REPORT ON CONTRACT COMPLIANCE  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

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May 13, 2003

Ms. A. Kathryn Power, Director  
Department of Mental Health, Retardation and Hospitals  
Barry Hall - 2  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Power:

We have completed an examination of the contracts between the Department of Mental Health, Retardation and Hospitals (MHRH) and Fellowship Health Resources, Inc., (Center) for the fiscal years ended June 30, 2002 and 2001.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the General Laws requires the Director of the department audited to respond in writing within sixty days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert J. Higgins, Director, Department of Administration and to the Honorable Paul V. Sherlock, Chairman of the House Finance Committee and to the Honorable Stephen D. Alves, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of MHRH and to the Director and staff members of the Center for their assistance, cooperation and courtesies extended to us during the course of this examination.

Sincerely,

Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pp

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

**SCOPE AND PURPOSE**

The purpose of this examination was to determine compliance with your department's terms and conditions contained within the Community Support and Residential Services Contracts as to:

- compliance with contract terms,
- whether reported expenses were allowable and properly allocated;
- whether reported revenues were accurate; and
- any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our audit of the financial records included verification of revenues and expenses through testing procedures to the extent we deemed necessary in the circumstances. Occupancy requirements and resident contributions were examined for adherence to contract specifications. Client fund management was reviewed for conformance with applicable policies and guidelines.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

**BACKGROUND**

Fellowship Health Resources, Inc., located at 25 Blackstone Valley Place – Suite 300, Lincoln, Rhode Island, is a nonprofit corporation established under the State's General Laws. The provider, incorporated in 1977, is governed by a board of directors consisting of no less than 12 nor more than 24 members elected annually. The provider operates in Rhode Island, Delaware, Maine, Massachusetts and Virginia. This report concerns only Rhode Island activity.

**Residential Programs**

The provider operates eight residential facilities in Rhode Island which provide supervision, independent living skills training, case management services, and transportation for the clients enrolled in the program. The location, date established, and licensed capacity of the facilities are as follows:

<b><u>Facility</u></b>	<b><u>Established</u></b>	<b><u>Licensed Capacity</u></b>
Westwick House 46 West Warwick Avenue West Warwick, RI	1974	10
Fellowship House 1257 Cranston Street Cranston, RI	1981	9
Ocean State Outreach Program 59 West Shore Road (Office) Warwick, RI		
27 Dora St., Providence, RI	1987	4
2 Harkness St., Providence, RI	1990	4
68 Harrison St., Providence, RI	1990	2
1612 Broad St., Cranston, RI	1987	9
Hope Street Apartments Program 255 Hope Street (Office) Providence, RI		
569-571 & 573-575 Hope St. Providence, RI	1994	10
399-401 Morris Ave., Providence, RI	1999	6



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Ms. A. Kathryn Power, Director  
Department of Mental Health, Retardation and Hospitals  
Barry Hall -2  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Power:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and Fellowship Health Services, Inc. (Center), solely to assist the users in evaluating management's assertion about the Center's compliance with the Division of Behavioral Healthcare Service's financial terms and conditions contained within the Community Support and Residential Services contracts during the fiscal years ended June 30, 2002 and 2001, included in the accompanying Report on Contract Compliance. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For purposes of this engagement we tested compliance with the above-mentioned specified requirements for determining allowable costs, accuracy of reported activities, and any excess funding on behalf of MHRH. Based on the application of the procedures referred to above, we became aware of excess funding by MHRH for the fiscal years ended June 30, 2002 and 2001. There were instances of noncompliance with provisions contained in the financial terms and conditions with the contracts stated above. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Ms. A. Kathryn Power, Director  
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This report is intended solely for the use of MHRH and the Center and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink that reads "Stephen M. Cooper". The signature is fluid and cursive, with a long horizontal stroke at the end.

Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits  
January 29, 2003

SMC:pp



EXHIBIT A

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
STATEMENT OF REVENUES AND EXPENSES  
FISCAL YEAR ENDED JUNE 30, 2002

		Community Support, and Residential Services
		<hr/>
<u>Revenues</u>		
Title XIX Medicaid	\$	2,948,228
Rent Subsidy		31,657
Client Fees		156,143
Miscellaneous		3,731
		<hr/>
Total Revenues	\$	<u>3,139,759</u>
<u>Expenses</u>		
Personnel		1,802,789
Operating		744,176
Purchased Equipment		6,171
		<hr/>
Total Expenses	\$	<u>2,553,136</u>
Excess (Deficiency) of Revenues Over Expenses	\$	<u><u>586,623</u></u>

See accompanying notes to financial information.

:SP-48a

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
 FELLOWSHIP HEALTH RESOURCES, INC.  
 STATEMENT OF REVENUES AND EXPENSES  
 FISCAL YEAR ENDED JUNE 30, 2001

	Community Support, and Residential Services
	<hr/>
<u>Revenues</u>	
Title XIX Medicaid	\$ 2,849,816
Rent Subsidy	31,382
Client Fees	163,333
Miscellaneous	<hr/> 3,792
Total Revenues	\$ <hr/> 3,048,323
<u>Expenses</u>	
Personnel	1,713,757
Operating	682,051
Purchased Equipment	<hr/> 28,039
Total Expenses	\$ <hr/> 2,423,847
Excess (Deficiency) of Revenues over Expenses	\$ <hr/> <hr/> 624,476

See accompanying notes to financial information.

:SP-48b

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
STATEMENT OF OPERATIONS - TITLE XIX PROGRAM  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	<u>Fiscal Year Ended June 30</u>	
	<u>2002</u>	<u>2001</u>
Revenues Received Designated for Programs	\$ <u>2,948,228</u>	<u>2,849,816</u>
<u>Revenues Applied:</u>		
Community Support and Related Services	2,533,587	2,283,893
Restricted Reserve	<u>414,641</u>	<u>565,923</u>
Total	\$ <u><u>2,948,228</u></u>	<u><u>2,849,816</u></u>

See accompanying notes to financial information.

:SP-48c

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

**NOTES TO FINANCIAL INFORMATION**

**Note 1 – Significant Accounting Policies**

**Basis of Accounting:**

The financial information is presented on the accrual basis of accounting, which is in compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for funding programs in Community Mental Health Centers. Under this basis, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS  
FELLOWSHIP HEALTH RESOURCES, INC.  
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

**FINDINGS AND RECOMMENDATIONS**

**Net Operations**

Net operating results for the Center's programs for the fiscal years ended June 30, 2002 and 2001 (Exhibits A and B) are summarized below:

<u>Program</u>	<u>Total</u>	<u>2002</u>	<u>2001</u>
Community Support, and Residential Services	\$ 1,211,099	\$ 586,623	\$ 624,476

**Community Support and Residential Services**

The Community Support and Residential Services Program had total excess revenues in the amounts of \$586,623 and \$624,476 for the fiscal years ended June 30, 2002 and 2001, respectively. However, these amounts do not reflect adjustments made by MHRH during these fiscal years. The Department of MHRH determines the use or disposition of excess revenues.

Rhode Island Title 19 Medicaid revenues in the amounts of \$414,641 and \$565,923 for the fiscal years ended June 30, 2002 and 2001, respectively; were comingled with revenues of three other states. These combined amounts were reported as accounts payable in the provider's records and as such, in the independent audit reports for the period reviewed.

Provision 14 appearing in the Community Support and Residential Services Contract States:

"In all cases, revenue and expenditure information related to Department contracts must be separately identified in the audited statements."

The provider subsequently took steps to delineate revenues and expenditures by funding source in its records.

### **Recommendation**

1. MHRH officials should monitor independent audit reports and not accept reports that do not comply with contract provisions.

### **Management Letters**

Management letters have not been submitted by the Provider's independent auditors for the past several years. Preparation and submission are required by MHRH Departmental Regulation 7.9.5 which states:

"The center's Certified Public Account (CPA) audit shall include a separate management letter addressing weaknesses not appearing in the audit report. This management letter shall be the same letter provided by the auditor to the center's governing body."

### **Recommendation**

2. MHRH officials should ensure that management letters accompany each fiscal year's CPA audit report. If non-compliance continues, the Department should consider withholding contract funds until full compliance with Departmental Regulations are met.

### **Affiliate**

Fellowship Reality Corp. was formed July 2001, and is related to the Provider through common control of both Boards of Directors. The affiliate was created to purchase real estate which will be leased to the provider.